

---

---

# A BILL FOR AN ACT

RELATING TO SHIP REPAIR INDUSTRY.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Pearl Harbor Naval Shipyard, one of four naval  
2 shipyards in the United States, comprises six per cent of  
3 Hawaii's gross domestic product. While the submarine footprint  
4 in Pearl Harbor will continue to grow slightly by 2025, the  
5 surface combatant fleet currently homeported in Pearl Harbor may  
6 be significantly reduced.

7           Based on the current Navy Workload Schedules, there are  
8 plans to relocate surface ships to San Diego for deep  
9 maintenance, with some of these ships at risk of not returning.  
10 These types of surface vessel repairs are typically outsourced  
11 to private-sector ship repair companies and constituted a major  
12 part of the estimated \$180,000,000 to \$200,000,000 in civilian  
13 ship repair activities in Hawaii during 2018.

14           The legislature finds that the impact of losing surface  
15 vessel repair work would be far-reaching and would directly  
16 cause the loss of military jobs associated with surface ships.  
17 The Navy's drydock capacity shortfalls will refocus nearly one



1 hundred per cent of the current Pearl Harbor drydock capacity on  
2 submarine maintenance and displace nearly all surface ship  
3 drydock maintenance and modernization to the west coast. The  
4 adverse economic impacts of displaced ship repair activities  
5 over the next seven years include the loss of nearly  
6 \$1,310,000,000 in Hawaii gross domestic product, \$351,000,000 in  
7 lost labor earnings, and an annual average decrease of nine  
8 hundred jobs each year. The loss of Navy surface ship drydock  
9 maintenance to the Pearl Harbor private-sector ship repair  
10 community would significantly diminish the local ship repair  
11 industry to an unrecoverable degree.

12 The legislature further finds that the construction of a  
13 purpose-built floating drydock capable of accommodating any of  
14 the submarines and surface ships currently in and planned for at  
15 Pearl Harbor represents the best mitigating solution for the  
16 State. This floating drydock will protect private-sector  
17 maritime jobs that are expected to be lost and will stimulate  
18 overall job growth in the ship repair industry, prevent the  
19 erosion of Hawaii's private ship repair capability, and provide  
20 greater strength and stability to the Navy's Mid-Pacific Surface  
21 Force. The legislature believes that a ship repair industry tax



1 credit will ultimately result in a fifth drydock. Given that a  
2 drydock's life cycle is fifty years or more, additional Pearl  
3 Harbor drydocking capacity will benefit the State's economy well  
4 into the future.

5 The purpose of this Act is to establish the ship repair  
6 industry tax credit to incentivize construction of a new drydock  
7 at Pearl Harbor for use by the United States Navy.

8 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
9 amended by adding a new section to be appropriately designated  
10 and to read as follows:

11 "§235- Ship repair industry tax credit. (a) There  
12 shall be allowed to each taxpayer subject to the taxes imposed  
13 by this chapter a ship repair industry tax credit that shall be  
14 deductible from the taxpayer's net income tax liability, if any,  
15 imposed by this chapter.

16 (b) The amount of the tax credit shall be equal  
17 to per cent of the ship repair industry costs paid or  
18 incurred by the qualified entity to design and construct the  
19 purpose-built floating dry dock to be used by the United States  
20 Navy in Pearl Harbor; provided that:



1       (1) A qualified entity may form a special purpose entity  
2           for the purposes of raising investor capital and  
3           claiming the credit on behalf of the qualified entity;

4       (2) The qualified entity, together with all of its special  
5           purpose entities, including all partners and members  
6           of the qualified entity and its special purpose  
7           entities, shall not claim any credit in any one  
8           taxable year that exceeds \$                   ; and

9       (3) In no event shall a qualified entity or any of its  
10           special purpose entities or any other taxpayer claim a  
11           credit under this section after December 31,           .

12       A qualified entity shall become eligible to claim a credit under  
13       this section only after construction of the floating drydock has  
14       been completed and the floating drydock has been placed into  
15       service.

16       (c) In the case of an entity taxed as a partnership,  
17       credit shall be determined at the entity level, but distribution  
18       and share of the credit may be determined notwithstanding  
19       sections 704 or 706 of the Internal Revenue Code.

20       (d) The credit allowed under this section shall be claimed  
21       against the net income tax liability for the taxable year. If



1 the tax credit under this section exceeds the taxpayer's income  
2 tax liability, the excess of the tax credit over liability may  
3 be used as a credit against the taxpayer's net income tax  
4 liability in subsequent years until exhausted. All claims,  
5 including amended claims, for a tax credit under this section  
6 shall be filed on or before the end of the twelfth month  
7 following the close of the taxable year for which the credit may  
8 be claimed. Failure to comply with the foregoing provision  
9 shall constitute a waiver of the right to claim the credit.

10 (e) The director of taxation shall prepare any forms that  
11 may be necessary to claim a credit under this section. The  
12 director may also require the taxpayer to furnish information to  
13 ascertain the validity of the claim for credit made under this  
14 section. The director of taxation may adopt rules to effectuate  
15 the purposes of this section pursuant to chapter 91.

16 (f) Any taxpayer claiming a tax credit under this section,  
17 within ninety days of the end of the calendar year in which the  
18 credit is properly claimable, shall submit the following  
19 information to the department of taxation:

20 (1) The amount of the eligible costs for which the tax  
21 credit may be claimed; and



1       (2) The qualified entity that incurred the costs.  
2 Failure to timely submit the information shall be subject to a  
3 penalty of \$5,000 per month or a fraction thereof, not to exceed  
4 \$25,000.

5       (g) This section shall not apply to taxable years  
6 beginning after December 31, .

7       (h) For the purpose of this section:  
8       "Net income tax liability" means income tax liability  
9 reduced by all other credits allowed under this chapter.

10       "Qualified entity" means a not-for-profit entity with the  
11 principal purpose of facilitating and enhancing the ship repair  
12 business in the State and that is involved in the design and  
13 construction of a purpose-built floating drydock to be used by  
14 the United States Navy in Pearl Harbor.

15       "Ship repair industry costs" means capital expenditures, as  
16 used in section 263 of the Internal Revenue Code and the  
17 regulations promulgated thereunder, or capital expenditures for  
18 real property, fixtures, structures, machinery, equipment, or  
19 capital assets that are paid or incurred in connection with the  
20 construction of a purpose-built floating drydock; provided that  
21 the ship repair industry costs shall not include amounts for



1 which another credit is claimed or any amounts received in any  
2 form from the State."

3 SECTION 3. Section 235-17.5, Hawaii Revised Statutes, is  
4 repealed.

5 ~~["§235-17.5 Capital infrastructure tax credit. (a) There~~  
6 ~~shall be allowed to each taxpayer subject to the taxes imposed~~  
7 ~~by this chapter a capital infrastructure tax credit that shall~~  
8 ~~be deductible from the taxpayer's net income tax liability, if~~  
9 ~~any, imposed by this chapter for the taxable year in which the~~  
10 ~~capital infrastructure costs were paid or incurred.~~

11 ~~(b) For the purpose of this section:~~

12 ~~"Capital infrastructure costs" means capital expenditures,~~  
13 ~~as used in section 263 of the Internal Revenue Code and the~~  
14 ~~regulations promulgated thereunder, or capital expenditures for~~  
15 ~~real property, fixtures, structures, machinery, equipment, or~~  
16 ~~capital assets that are paid or incurred in connection with the~~  
17 ~~displaced tenant's move of the tenant's current active trade or~~  
18 ~~business to the tenant's new location within Honolulu harbor,~~  
19 ~~provided that the capital infrastructure costs shall not include~~  
20 ~~amounts for which another credit is claimed or any amounts~~  
21 ~~received in any form from the State.~~



1 ~~"Net income tax liability" means income tax liability~~  
2 ~~reduced by all other credits allowed under this chapter.~~

3 ~~"Qualified infrastructure tenant" means a business:~~

4 ~~(1) That currently owns capital or property or maintains~~  
5 ~~an office, operations, or facilities at the former~~  
6 ~~Kapalama military reservation site;~~

7 ~~(2) Whose principal business is maritime, and waterfront~~  
8 ~~dependent, and is included under the State's plan to~~  
9 ~~relocate the business to piers twenty four through~~  
10 ~~twenty eight within Honolulu harbor; and~~

11 ~~(3) That will be displaced and relocated by the State~~  
12 ~~pursuant to the Kapalama container terminal project.~~

13 ~~(c) The amount of the tax credit shall be equal to fifty~~  
14 ~~per cent of the capital infrastructure costs paid or incurred by~~  
15 ~~the qualified infrastructure tenant during the taxable year, up~~  
16 ~~to a maximum credit of \$2,500,000 per qualified infrastructure~~  
17 ~~tenant per taxable year. If the capital infrastructure costs~~  
18 ~~paid or incurred by the qualified infrastructure tenant business~~  
19 ~~result in a tax credit in excess of \$2,500,000 in any taxable~~  
20 ~~year, the excess capital infrastructure costs may be carried~~



1 ~~over to a subsequent tax year or years, until exhausted, for~~  
2 ~~generation of the credit; provided that:~~

3 ~~(1) A qualified infrastructure tenant may form a special~~  
4 ~~purpose entity for the purposes of raising investor~~  
5 ~~capital and claiming the credit on behalf of the~~  
6 ~~qualified infrastructure tenant;~~

7 ~~(2) The qualified infrastructure tenant, together with all~~  
8 ~~of its special purpose entities, including all~~  
9 ~~partners and members of the qualified infrastructure~~  
10 ~~tenant and its special purpose entities, shall not~~  
11 ~~claim any credit in any one taxable year that exceeds~~  
12 ~~\$2,500,000; and~~

13 ~~(3) In no event shall a qualified infrastructure tenant or~~  
14 ~~any of its special purpose entities or any other~~  
15 ~~taxpayer claim a credit under this section after~~  
16 ~~December 31, 2019.~~

17 ~~(d) In the case of an entity taxed as a partnership,~~  
18 ~~credit shall be determined at the entity level, but distribution~~  
19 ~~and share of the credit may be determined notwithstanding~~  
20 ~~section 704 or section 706 of the Internal Revenue Code.~~



1       ~~(e) The credit allowed under this section shall be claimed~~  
2 ~~against the net income tax liability for the taxable year. If~~  
3 ~~the tax credit under this section exceeds the taxpayer's income~~  
4 ~~tax liability, the excess of the tax credit over liability may~~  
5 ~~be used as a credit against the taxpayer's net income tax~~  
6 ~~liability in subsequent years until exhausted. All claims,~~  
7 ~~including amended claims, for a tax credit under this section~~  
8 ~~shall be filed on or before the end of the twelfth month~~  
9 ~~following the close of the taxable year for which the credit may~~  
10 ~~be claimed. Failure to comply with the foregoing provision~~  
11 ~~shall constitute a waiver of the right to claim the credit.~~

12       ~~(f) This section shall not apply to taxable years~~  
13 ~~beginning after December 31, 2019.~~

14       ~~(g) Any credit claimed under this section shall be~~  
15 ~~recaptured following the close of the taxable year for which the~~  
16 ~~credit is claimed if:~~

17       ~~(1) Within three years:~~

18               ~~(A) The qualified infrastructure tenant fails to~~  
19               ~~continue the line of business it conducted as of~~  
20               ~~July 1, 2014; or~~



1           ~~(B) The interest in the qualified infrastructure~~  
2           ~~tenant, whether in whole or in part, has been~~  
3           ~~sold, exchanged, withdrawn, or otherwise disposed~~  
4           ~~of by the taxpayer claiming a credit under this~~  
5           ~~section; or~~

6           ~~(2) The qualified infrastructure tenant fails to relocate~~  
7           ~~from the former Kapalama military reservation site to~~  
8           ~~another location, pursuant to a lease with the~~  
9           ~~department of transportation, within ninety days of~~  
10           ~~the execution of the lease.~~

11           ~~The recapture shall be equal to one hundred per cent of the~~  
12           ~~amount of the total tax credit claimed under this section in the~~  
13           ~~preceding five taxable years, and shall be added to the~~  
14           ~~taxpayer's tax liability for the taxable year in which the~~  
15           ~~recapture occurs pursuant to this subsection.~~

16           ~~(h) The director of taxation shall prepare any forms that~~  
17           ~~may be necessary to claim a credit under this section. The~~  
18           ~~director may also require the taxpayer to furnish information to~~  
19           ~~ascertain the validity of the claim for credit made under this~~  
20           ~~section. The director of taxation may adopt rules to effectuate~~  
21           ~~the purposes of this section pursuant to chapter 91.~~



1       ~~(i) Any taxpayer claiming a tax credit under this section~~  
2 ~~shall, within ninety days of the end of the calendar year in~~  
3 ~~which costs for which the credit is properly claimable, submit~~  
4 ~~the following information to the department of taxation:~~

5       ~~(1) The amount of the eligible costs for that year for~~  
6       ~~which the tax credit may be claimed; and~~

7       ~~(2) The qualified infrastructure tenant incurring the~~  
8       ~~costs.~~

9 ~~Failure to timely submit the information shall be subject to a~~  
10 ~~penalty of \$5,000 per month or a fraction thereof, not to exceed~~  
11 ~~\$25,000." ]~~

12       SECTION 4. Statutory material to be repealed is bracketed  
13 and stricken. New statutory material is underscored.

14       SECTION 5. This Act shall take effect on July 1, 2050, and  
15 shall apply to taxable years beginning after December 31, 2019.



**Report Title:**

Ship Repair Industry Tax Credit; Pearl Harbor; Income Tax

**Description:**

Establishes the ship repair industry tax credit for non-profit entities to offset costs incurred to construct and put into service a purpose-built floating drydock at Pearl Harbor for use by the United States Navy. Applies to taxable years beginning after 12/31/2019. Effective 7/1/2050. (SD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

